

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04  
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-----064114 211005Z /23

O R 210905Z AUG 78  
FM AMEMBASSY ANKARA  
TO SECSTATE WASHDC IMMEDIATE 3042  
INFO AMCONSUL ADANA  
AMCONSUL ISTANBUL  
AMCONSUL IZMIR  
AMEMBASSY ATHENS  
AMEMBASSY NICOSIA

C O N F I D E N T I A L ANKARA 5998

PASS TREASURY

E.O. 11652: GDS  
TAGS: EFIN, IMF, TU  
SUBJ: TURKEY'S SECOND QUARTER ECONOMIC PERFORMANCE

REF: (A) STATE 208585 (NOTAL), (B) ANKARA 2453

1. THIS CABLE IS INTENDED TO PROVIDE COMMENT AND INFORMATION  
ON STATEMENT OF MFA SECRETARY GENERAL SUKRU ELEKDAG TO TREASURY  
UNDER-SECRETARY SOLOMON THAT TURKISH STABILIZATION PROGRAM IS  
BEGINNING TO RESULT IN CERTAIN IMPROVEMENTS IN THE ECONOMY  
(REFTEL).

2. AMONG THE FAVORABLE ECONOMIC TRENDS CITED BY ELEKDAG IS  
THE DECELERATION IN THE "GENERAL PRICE INDEX". ELEKDAG CITED  
FIGURES FROM TURKEY'S WHOLESALE PRICE INDEX. ITS MONTHLY  
CHANGES HAVE BEEN 4.4 PERCENT IN MARCH, 3.5 PERCENT IN  
APRIL, 3.2 PERCENT IN MAY AND 1.8 PERCENT IN JUNE. BUT AS  
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WAS POINTED OUT IN REFTL B, THE PRICES OF MANY OF THE  
COMMODITIES COVERED IN THIS INDEX ARE GOVERNMENT-CONTROLLED.  
THIS INDEX IS DECLINING BECUASE THE GOVERNMENT HAS NOT  
RECENTLY INCREASED THE PRICES OF A NUMBER OF PRODUCTS  
INCLUDED IN THE INDEX WHICH ARE PRODUCED BY STATE ECONOMIC  
ENTERPRISES. FIALURE TO DO SO RESULTS IN DEFICIT-FINANCING OF  
STATE ENTERPRISES AND ULTIMATELY IN INFLATIONARY PRESSURE.

3. IN CONTRAST, THE ISTANBUL AND ANKARA COST OF LIVING INDICES HAVE HAD THE FOLLOWING MONTHLY CHANGES:

MONTH	ISTANBUL INDES	ANKARA INDEX
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MARCH	1.9	2.1
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APRIL	2.9	2.8
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MAY	5.2	11.1
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JUNE	4.1	3.1
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THESE INDICES INDICATE A DIFFERENT TREND FROM THE WHOLESALE INDEX. IN THE 12-MONTH PERIOD ENDING JUNE 1978, THE WHOLESALE INDEX HAS INCREASED 51.6 PERCENT; THE ISTANBUL COL INDEX, 70.2 PERCENT; AND THE ANKARA COL INDEX, 58.6 PERCENT.

4. BANK DEPOSITS: ELEKDAG SAID THAT BANK DEPOSITS HAVE INCREASED SUBSTANTIALLY. TOTAL BANK DEPOSITS WERE TL 213.4 BILLION IN DECEMBER 1977 AND TL 215.3 BILLION IN MAY 1978, AN INCREASE OF LESS THAN 1 PERCENT. THE COMPOSITION OF BANK DEPOSITS CHANGED DURING THIS PERIOD, HOWEVER, AS DEMAND COMMERCIAL DEPOSITS DROPPED BY 10.8 PERCENT WHILE TIME SAVINGS DEPOSITS INCREASED BY 14.4 PERCENT. CONFIDENTIAL

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THE CHANGE CAN BE ATTRIBUTED TO INCREASED INTEREST RATES ON TIME SAVINGS DEPOSITS AND, ALTHOUGH THERE ARE MIXED CONSEQUENCES, CAN ON BALANCE BE REGARDED AS DELATIONARY.

5. MONEY SUPPLY: ON A RELATED SUBJECT, WE CAN ADD THAT THE MONEY SUPPLY DROPPED FROM TL 219.8 BILLION IN APRIL TO TL 213.4 BILLION IN MAY; HOWEVER, THIS IS A REFLECTION OF THE SHIFT FROM DEMAND DEPOSITS, WHICH ARE INCLUDED IN THE CALCULATION OF THE MONEY SUPPLY, TO TIME DEPOSITS, WHICH ARE NOT INCLUDED. THE AMOUNT OF BANK NOTES IN CIRCULATION HAS CONTINUED TO INCREASE THROUGHOUT THE YEAR (AND CONTRIBUTE TO INFLATION) AS CAN BE SEEN BELOW:

MONTH	BANK NOTES IN CIRCULATION (BILLIONS OF TL)
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JANUARY	78.4
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FEBRUARY	79.5
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MARCH	81.4
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APRIL	83.9
MAY	85.9
JUNE	88.9

6. ALTHOUGH EXPORTS WERE UP 21 PERCENT IN APRIL, 20 PERCENT IN MAY AND 29 PERCENT IN JUNE, THESE INCREASES CAN BE ATTRIBUTED TO EXPORTS OF FOUR AGRICULTURAL PRODUCTS (THERE WAS INCREASED PRODUCTION OF WHEAT, COTTON, FILBERTS AND RAISINS IN 1977) ALL OF WHICH ARE EXPORTED UNDER A SYSTEM OF DOLLAR-DENOMINATED MINIMUM EXPORT PRICES, AND, THEREFORE, WERE NOT STIMULATED BY THE MARCH 1 LIRA DEPRECIATION. THE DIFFERENCE BETWEEN 1977 AND 1978 SECOND QUARTER EXPORTS OF

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THESE FOUR PRODUCTS WAS \$107.7 MILLION. TOTAL SECOND QUARTER EXPORTS INCREASED ONLY \$91.7 MILLION FROM 1977 TO 1978.

7. LABOR CONTRACTS: IT IS TRUE, AS ELEKDAG SAID, THAT THE GOVERNMENT SIGNED A "SOCIAL CONTRACT" WITH TURK-IS, THE LARGEST CONFEDERATION OF LABOR UNIONS IN TURKEY. HOWEVER, THE LABOR CONTRACTS RECENTLY SIGNED BETWEEN A NUMBER OF GOVERNMENT AGENCIES AND TURK-IS UNISON PROVIDE FOR LARGE RETROACTIVE PAY INCREASES, SOME RETROACTIVE FOR NINE MONTHS. THESE WAGE INCREASES WHICH AVERAGE ABOUT 100 PERCENT OVER TWO YEARS CANNOT AVOID STIMULATING DOMESTIC DEMAND. SINCE DOMESTIC-PRODUCTION IS DECLINING, THE ONLY OUTCOME POSSIBLE FROM THESE WAGE SETTLEMENTS IF RENEWED INFLATIONARY PRESSURE. EITHER THE PRICES OF GOODS AND SERVICES PRODUCED BY THESE STATE AGENCIES WILL HAVE TO BE GREATLY INCREASED OR THE CENTRAL BANK WILL BE FORCED TO FINANCE THE DEFICITS THESE WAGE SETTLEMENTS WILL IMPOSE ON THE GOVERNMENT BUDGET.

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